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Intellectual Ammunition

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Potshots

When a thing has been said and well said, have no scruple; take it and copy it.

—ANATOLE FRANCE

Don't worry about polls—but if you do, don't admit it.

—ROSALYNN CARTER

To govern is always to choose among disadvantage.

—CHARLES DE GAULLE

Governments can mess your life up.

—SADAKO OGATA, **United Nations High Commissioner for Refugees**

Economic censorship: A familiar complaint by artists, meaning "Nobody is buying my work."

—***U.S. News* essayist JOHN LEO**

When she fainted, her eyes rolled around the room.

—from a doctor's chart on his patient

The tides are a fight between the Earth and Moon. All water tends towards the moon, because there is no water in the moon, and nature abhors a vacuum. I forget where the sun joins in this fight.

—from an 11-year-old's science exam

Market Discipline for Colleges

by Robert B. Archibald, PhD and Michael J. BeVier

When, in July 1998, Governor James S. Gilmore announced the appointment of the Blue Ribbon Commission on Higher Education, he made clear that Virginia's post-secondary schools should be providing higher-quality education services for less money. The governor's concerns are echoed in various other state and national initiatives, such as the California Citizens Commission on Higher Education.

It's easy to be concerned. Enrollments in post-secondary schools have increased substantially over the past 25 years: Virginia's public post-secondary enrollment has risen almost 140 percent. Combined with increased per-student costs, the surge in enrollment has placed pressure on state budgets at a time when other state outlays, such as medical care subsidies, have also been rising rapidly and taxpayers are resisting further hikes in tax rates.

One way states have reacted to these pressures is to substantially reduce their subsidies to higher education. Since 1980, the percentage that states contribute to the total revenues of post-secondary institutions has dropped from 46 to 36 percent. To compensate for this, public schools have increased average in-state tuition from $617 in 1967 to $2,986 in 1996, a rise of 484 percent. (By contrast, inflation was 271 percent over the period.)

Bureaucratic Control vs. Market Discipline

Two recent commentaries on Virginia post-secondary institutions, commonly known as the "Chichester Report" and the "Davies Report," both urge higher subsidies. But neither comes to grips with how to ensure the state's colleges and universities effectively and efficiently spend whatever amount of public monies they do receive. Accountability, we believe, is the most critical, albeit the most difficult, issue.

Since education is commonly thought to be a "public good" (that is, education benefits not only the individual student, but the economy as a whole), states have built public colleges and universities, appropriated direct operating subsidies, and created bureaucracies to monitor how the monies are being spent.

This may work reasonably well with a few small institutions operating in a stable economic and social environment. But as bureaucracies get larger and administrative costs rise, control decreases and political

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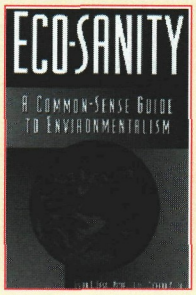

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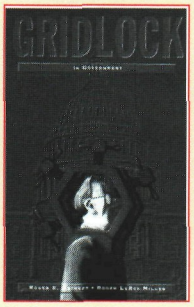

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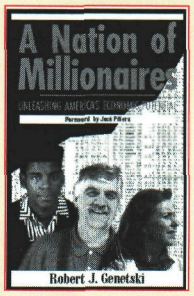

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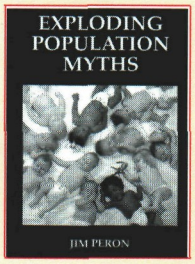

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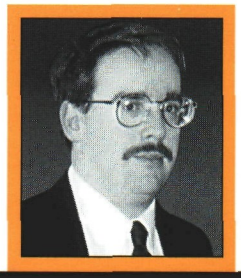

News from the Heartland

by John R. La Plante
Managing Editor

Tip O'Neil once observed that "all politics is local," and with this issue of *Intellectual Ammunition*, we examine the most local of all political issues: a person's place of residence.

In many metropolitan areas, including here in Chicago, government officials, environmental activists, and urban planners decry "urban sprawl." In order to offset the costs of building new roads, schools, and other public amenities to service newly developing areas, municipalities are turning to "impact fees." Are such fees justified?

In *Heartland Policy Study* #92, excerpted here, Brett M. Baden, Don L. Coursey, and Jeannine M. Kannegiesser examine the effects of impact fees in eight Chicago suburbs. They find that these fees—which actually *understate* the costs that local governments impose on developers, and ultimately, home buyers—may have many adverse effects. Impact fees are regressive, raise housing prices, and have the potential to reduce the economic vitality of the region.

"Setting impact fees at the appropriate levels," the researchers note, "requires considerable research into the accounting and budgetary structure of a municipality." Unfortunately, such careful research is only rarely done. As Baden and his colleagues conclude, all too often "frequent changes to fee structures and ad hoc assessments and exactions imposed on a project- by-project basis increase building costs without generating any offsetting revenues or benefits for municipalities."

Featured column. As Internet commerce grows—have you starting clicking your way through your shopping list?—states ought to consider Bill Ahern's lesson. As our Tax columnist explains, when taxes on cigarettes become too high, especially when compared with the taxes levied by nearby states, people move to avoid the tax system—either by smuggling or shopping out of state. Just as people avoid businesses that charge too much for their goods or services, so too they avoid governments that charge too much.

Exciting new Web presence. Devoted readers of *Intellectual Ammunition* know that we fit each of our regular columns onto a single printed page, giving you the quick-but-essential read of the key policy questions of the day. Alongside each column, we suggest materials for further reading: an expanded version of the column, statistical information that could not be fit into one page, or a companion piece. To date, you've been able to order these documents, free of charge, using Heartland's *PolicyFax* research service and your fax machine.

Now, *PolicyFax* has a full-featured Internet companion: *PolicyBot*. *PolicyBot* gives you extensive search-and-retrieve capabilities and 24/7 access to over 7,000 documents stored as Adobe Acrobat Portable Document Format (PDF) files.

To try the *PolicyBot* service, visit Heartland's Web site at www.heartland.org. If you already know which document you wish to retrieve—such as any featured in the columns in this issue—you can also go directly to that document by directing your Web browser to the specific URL noted in the column.

Correction. In the September/October issue, we attributed to George Washington a quotation beginning with: "Firearms stand next in importance to the Constitution itself." The quote apparently is bogus; we regret the error.

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conflicts cloud or compromise the objectives that these created to accomplish.

There is a considerable and growing amount of both theoretical literature—public choice theory—and empirical research showing that bureaucrats are not necessarily seekers after the public good. Instead they act according to highly localized incentives, such as the growth or prestige of their particular agency or their own status within that agency. The result is an extremely messy, highly partisan, and continuous struggle, both political and bureaucratic, over who gets how much.

All of which suggests that the post-secondary education system is unlikely to be forced or managed toward greater efficiency by increasing regulatory control from state capitals. Attempts to increase efficiency in this way may have exactly the opposite effect: the increased administrative costs will outweigh what little programmatic savings they impose.

The post-secondary education system is unlikely to be forced or managed toward greater efficiency by increasing regulatory control from state capitals.

A Better Way

If direct imposition of political and bureaucratic control is unlikely to provide a solution, is there an alternative?

Experience and theory both argue that market discipline is far more effective than bureaucratic regulation, and there is nothing inherent in higher education that prevents it from being disciplined in the same way. The market for higher education is quite robust. There are many colleges actively competing for students. The financial press annually produces independent sources of information, and parents of prospective college students can attest to the amount of direct advertising they receive. Finally, a school not offering value for the dollar will have few applicants and many students who transfer.

We believe that the frustrations with Virginia's system of post-secondary education proceed directly from the current subsidy and regulatory mechanism governing that system. We advocate a bold departure from the traditional regulatory apparatus, one that harnesses the flexibility and dynamism of competitive markets to provide a more efficient and responsive post-secondary education for Virginia. This plan is based upon five structural elements:

❶ *Replace the biennial operating subsidies for each school with a block grant equal to the school's 1998 general fund appropriation.* The block grant would be fixed under the terms of a five- to 10-year contract between each school and the state, with annual adjustments to reflect only inflation and enrollment changes. For the block grant, each school would agree to educate a specified number of Virginia students each year over the term of the contract. This system would go far to remove the political and administrative gamesmanship of the current process, and would discipline each institution's management team to allocate efficiently its limited resources.

❷ *Require, by contract, a flexible pricing policy* under which each institution must: (i) set tuition for out-of-state students at full cost; (ii) provide a tuition discount to all residents, regardless of need; (iii) admit all Virginia students on a need-blind basis; (iv) ensure that Virginia residents who qualify for financial aid do not pay tuition greater than Virginia resident 1998 tuition (adjusted for inflation); and (v) agree to make significant progress toward the goal of meeting all the demonstrated financial need of Virginia students.

One of the great weaknesses of the current system is that the subsidy provided by low tuition at state-supported schools goes to every student no matter how affluent, while students from low-income families graduate with excessive debt. This proposal responds directly to this criticism by redirecting the state's subsidies toward those who need them most.

❸ *Emphasize the attainment of quality and cost targets while minimizing regulatory micro-management from Richmond.* The Chichester report saw four advantages of greater decentralization: First, "accountability would be increased because the people working in the institutions would know that they are fully responsible for how the institutions operate." Second, the institutions would have "added flexibility to adapt to changes in our economy." Third, the increased autonomy would "yield more imaginative, cost-conscious decision-making" in university managers. Fourth, the domain of state government becomes smaller as the institutions are assigned this quasi-public status. They "are serving their clients rather than responding to state agencies."

Such recommendations reflect both the insights of public choice theory and the broader national experience with deregulation.

❹ *Encourage individual institutions to engage in private fundraising* under principles that ensure support of appropriate educational goals. The expansion of charitable giving to Virginia's public colleges and universities is another means of forcing accountability on individual institutions. To the extent that private contributions are critical to their mission, if not survival, schools will be under great pressure to provide a level of quality that can gain broad acceptance.

❺ *Implement the plan gradually,* beginning with the stronger schools, and use the contract as a flexible tool to provide incentives to achieve particular goals.

We advocate a system that harnesses the flexibility and dynamism of competitive markets to provide a more efficient and responsive post-secondary education.

Virginia is not alone in seeking answers to the problems facing colleges and universities. The issue is of nationwide concern. This proposal, to replace the conventional system of operating subsidies and regulatory oversight with block grants and market discipline, can do more than improve Virginia's colleges and universities. It will be seen as vigorous and innovative leadership that sets an example for the rest of the nation. Then Virginia will demonstrate again that Jefferson was right: government governs best that governs least.

Robert B. Archibald is professor of economics at the College of William and Mary, and Michael J. BeVier is chairman of MorBanc Financial Corporation. This essay is adapted from the Virginia Institute for Public Policy's report, "Imposing Market Discipline on Public Colleges and Universities." To obtain a copy of the report, contact the institute at 20461 Tappahannock Place, Sterling, VA 20165; phone 703/421-8365; Web www.virginiainstitute.org

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Crime

Morgan Reynolds

Morgan O. Reynolds is director of the Criminal Justice Center at the National Center for Policy Analysis.

Texas Crime and Punishment in the 1990s

After "The Simpsons" ran a "Who Shot Mr. Burns?" episode, baby Maggie was revealed as the assailant. Worried question: "They don't execute babies, do they?" Answer: "No. Well . . . maybe in Texas."

Such is the harsh image of Texas justice. Texas Governor George W. Bush got tangled up in this image when he waffled about whether he used illegal drugs in his "young and irresponsible years"—stark contrast to his "serious consequences for bad behavior" policies as governor. But what is Dubya's real record on crime?

During this decade, serious crime has dropped 33 percent in Texas, versus 27 percent in the nation. (Serious crimes are defined as murder, rape, robbery, aggravated assault, and burglary.) The Texas advantage stems primarily from steeper drops in murder and burglary. Since 1990, murder has declined by 52 percent in Texas versus 33 percent nationally, while burglary dropped 47 percent in Texas versus 31 percent in the nation. The remaining three crimes dropped by similar percentages in Texas and the nation.

Did Bush Make a Difference?

Can these differences be attributed to tougher policies in Texas than in the nation during the 1990s? Perhaps. Certainly Texas has run up its prison population much faster than the nation.

The state's imprisonment rate surged from 290 prisoners per 100,000 population in 1990 (slightly below the national rate of 292) to 724 prisoners per 100,000 population in 1998. That gave Texas the second highest rate in the nation, after Louisiana's 736, and a rate 57 percent higher than the national average of 461 per 100,000 population. Drug offenders make up 22 percent of Texas prisoners, a rate that stayed the same throughout the decade.

Despite the huge prison boom in Texas, the odds of imprisonment increased slightly more in the nation than in Texas. The overall probability of prison for the five serious crimes rose 26 percent nationally since 1990, but only 20 percent in Texas. Most studies find that increasing the probability of prison for committing a serious crime is a more effective deterrent than lengthening time actually served.

What about prison sentences? At the national level, there has been a moderate increase in time served for serious crimes during the 1990s, about 12 percent. But in Texas, prison time served has more than tripled during the decade. It's now almost impossible to get paroled there.

Texas inmates in 1990 were serving less than 16 percent of their sentences because of federal court orders against overcrowding. After a prison-building boom nearly tripled capacity during the 1990s—a boom the voters authorized well before Bush became governor—the revolving door stopped revolving.

With more beds available, Texas inmates now serve nearly half of their sentences—about the national norm—and violent offenders serve as much as 90 percent. Time served in Texas prisons now triples the national experience for prisoners released during the last two years. For example, the median term served by murderers nationally is under six years, while it is nearly 15 years in Texas.

> *Texas inmates now serve nearly half of their sentences—about the national norm—and violent offenders serve as much as 90 percent.*

An Added Push

Many of these results would have occurred independent of Dubya's policies. As a Texas corrections department spokesman, Glen Castlebury, says, "It was the cops on the street who were pulling these guys in and the district judges who were thumping them in jail. It would've happened if I'd been sitting there as governor." Not only was the prison expansion already in place before the governor took office, but the state's criminal code was overhauled in 1993. Bush took office in January 1995.

Bush, however, deserves credit for steady leadership on crime-fighting and for toughening the treatment of juvenile offenders, appointing tough-minded people to the parole board, and signing the shall-issue concealed carry legislation into law.

Unfortunately, our much-needed debate over drug policies never got started, despite the stimulus of the Bush-drugs controversy. But it's coming. Once we surpass 2 million inmates—more than one of every 100 adults—in the next few years, harsh drug sentences will come under scrutiny as the need for more prisons increases.

Meanwhile, the Texas experience supports the proposition that prison works, especially long prison terms. Yet the state's justice policies probably should shift toward increasing arrest and conviction rates and reducing recidivism through corrections experiences that really correct.

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The Problem of Lemons. Juvenile crime records should be retained, not destroyed. (*Cato Journal*, September 1998, 9pp.)

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Education

George Clowes

George Clowes is managing editor of *School Reform News*, a monthly newspaper published by The Heartland Institute.

Parents Want Alternatives

An annually conducted national public opinion poll reveals a solid majority of 60 percent supported the idea of having the government pay all or part of the tuition for parents who choose nonpublic schools. Only 38 percent of parents opposed this idea, a dramatic turnaround from five years ago, when parents opposed government-funded tuition by a 51-to-48 margin.

Full or partial government-funded school choice is favored by an overwhelming 70 percent of nonwhites and public school parents with children achieving at or below grade level.

A solid majority of 60 percent supported the idea of having the government pay all or part of the tuition for parents who choose nonpublic schools.

Researchers noted that "the public more strongly supports plans that would cover *part* of the tuition rather than *all* of it."

The 31st annual survey is based on telephone interviews conducted in May and June 1999 with 1,103 adults. It has a margin of error of approximately 4 percent for the total sample.

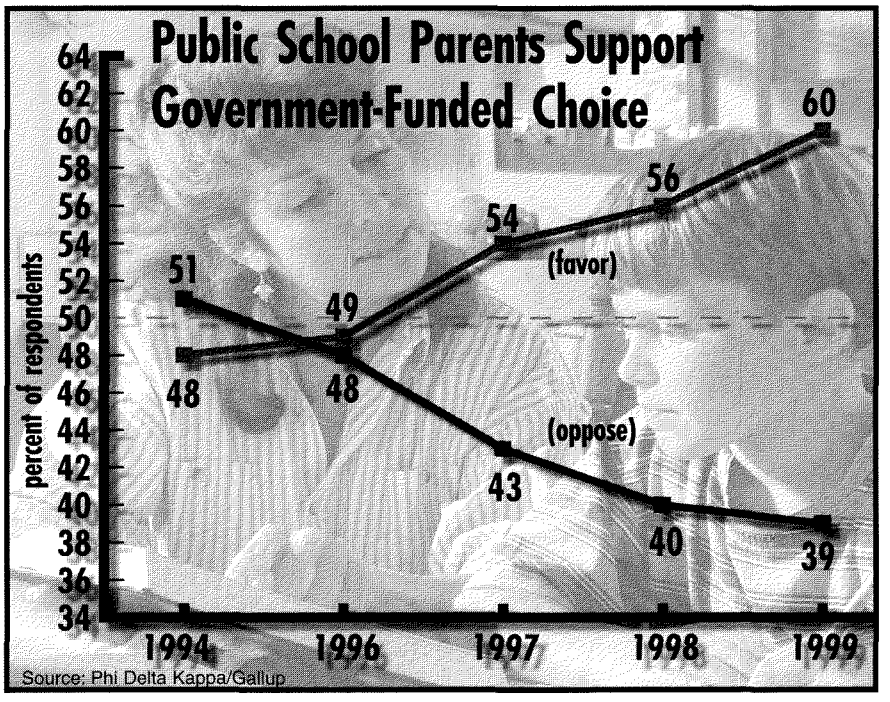
Thirty percent of parents with children in public schools—up from 24 percent only two years ago—now believe that the way to improve public education in America is not by tinkering with the existing public school system, but by finding an alternative to it.

While most parents still favor reforming the existing system, support for this option eroded from 72 percent in 1997 to 68 percent this year, according to the latest Phi Delta Kappa/Gallup "Poll of the Public's Attitudes Toward Public Schools."

Among the general public, those favoring reform of the existing system remained unchanged from 1997 to 1999 at 71 percent, but support for finding alternatives grew from 23 to 27 percent. Non-whites expressed the strongest preference for finding an alternative system (36 percent). The group most strongly in favor of reforming the existing system were public school parents with college degrees (77 percent).

When public school parents were asked where they would send their oldest child to school if the government paid the tuition, 51 percent chose the same public school, and 5 percent chose another public school. Nearly 40 percent, though, said they would choose a nonpublic school (22 percent chose a private school, and 17 percent chose a church-related school). If parents had the means to achieve their stated preferences, public education's share of K-12 students would fall from its current 89 percent to just over 50 percent.

Even though only 39 percent of public school parents would choose a nonpublic school for their child if the government paid the tuition.



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PDK/Gallup Poll. The latest PDK/Gallup Poll has even more to offer than what's summarized here! (PDK/Gallup, August 1999)

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Environment

Jonathan H. Adler

Jonathan H. Adler is senior director of environmental policy at the Competitive Enterprise Institute in Washington, DC.

Better Safe than Sorry?

Environmental policy at the close of the 20th century is increasingly dominated by the "precautionary principle," which states that new technologies and substances should be regulated before they can cause harm, rather than after their harmful potential has been demonstrated.

The "Wingspread Consensus Statement," a document drafted by several dozen environmental activists and scholars, holds that "When an activity raises threats of harm to human health or environment, precautionary measures should be taken even if some cause and effect relationships are not fully established." In other words, regulate first, assess the risks later.

The precautionary principle appeals to the common-sense notion that "it is better to be safe than sorry." In practice, the precautionary principle biases regulatory decisions against new technology.

While those who advocate the precautionary principle purport to act in defense of public health and the environment, the precautionary principle may well leave us more sorry and less safe. As noted by the late Aaron Wildavsky, "the empirical question is whether the health [and environmental] gains from the regulation of the substances involved are greater or lesser than the health [and environmental] costs of the regulation."

By focusing on only those risks posed by the uncertainties of new technologies, the precautionary principle turns a blind eye to the harms that occur, or are made worse, by the lack of technological development.

"The truly fatal flaw of the precautionary principle," Wildavsky writes, "ignored by almost all the commentators, is the unsupported presumption that an action aimed at public health protection cannot possibly have negative effects on public health." Unfortunately, efforts to regulate one risk *can* create other, often more dangerous risks.

Perhaps the most prominent example of the harm caused by excessive "precaution" is the "drug lag." The Food and Drug Administration (FDA) must approve new drugs and medical devices before they may be used or prescribed. Delaying the availability of potentially life-saving treatments, however, poses risks of its own, particularly for people in dire need. Consider: If a drug that has just been approved by FDA will start saving lives tomorrow, then how many people died yesterday waiting for the agency to act?

Environmental Protection Agency regulation of pesticides poses similar problems. Ethylene dibromide (EDB) was a powerful fungicide used to prevent the growth of molds on grain—molds that produce some of the most potent carcinogens found in nature, such as aflatoxin. Yet EDB was deemed a potential carcinogen, and EPA banned it, without considering whether the risk of EDB was greater or lesser than the risk posed by aflatoxin. Moreover, EDB was replaced with fungicides that must be applied in greater quantities, increasing the risk for workers exposed to the substances.

> *For much of the world, the greatest environmental threats derive from poverty and a lack of innovation, not new-fangled technologies.*

Hinder Wealth, Hinder Health

Wildavsky notes that the ill effects of undue precaution can be even broader as "regulation imposes costs that mean less real income available to individuals for alternative expenditure . . . [which] itself has adverse health effects, in the form of poorer diet, more heart attacks, more suicides." To the extent that regulations divert resources away from potentially life-saving or safety-enhancing activities, they make people worse off.

At the extreme, regulations that impose substantial costs can even increase overall mortality. Higher economic growth and aggregate wealth, after all, strongly correlate with reduced mortality and morbidity. Getting and maintaining wealth is necessary to fund medical research, support markets for advanced life-saving techniques, and so on. In a phrase, poorer is sicker, and wealthier is healthier.

Despite its grave flaws, the precautionary principle has become a key principle of international environmental law. The Rio Declaration, agreed to at the 1992 United Nations Earth Summit, states that "Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation. In order to protect the environment," the declaration adds, "the precautionary approach shall be widely applied by States according to their capabilities." Similar statements can be found in nearly every international environmental agreement.

Policymakers who rely on the precautionary principle turn a blind eye toward the risks created by over-regulation. This is a costly mistake. For much of the world, the greatest environmental threats derive from poverty and a lack of innovation, not new-fangled technologies.

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Precautionary Tale. Can too much caution be risky? (*Reason*, April 1999, 5pp.)

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Health Care

Twila Brase, RN, PHN

Public health nurse Twila Brase is president of Citizens' Council on Health Care.

"Patient Protection" Is Policy Malpractice

Patient protection. Public opinion supports it and politicians claim to be its champion. Now both houses of Congress have passed different bills to advance the noble-sounding cause. Many are already celebrating their expected victory.

Meanwhile, advocates of a national health care system slyly wink at each other, knowing *they* have scored another victory. The stage is set for another major assault on independent, free market, and charitable medicine. All it took were two little words dangled before a desperate public: patient protection.

The move to nationalize health care has gone so smoothly. First, the nation was enticed to believe the Clinton plan died a sure death in 1994. Then, bipartisan measures in 1996 advanced national medical databases, electronic medical records, computer chip smart cards, and police power over doctors, all under the guise of promoting insurance portability and Medical Savings Accounts. Measures to expand Medicaid into the middle class, limit care for nursing home residents, and encourage senior citizens to enroll in HMOs were quickly enacted in 1997 as part of a children's health insurance bill. (After all, who can say no to kids?) Federal regulation of the entire health insurance industry is near at hand.

Even smart lawyers haven't figured out how harmful this latest bill will be to their future. Oh yes, they'll be sitting pretty with one-seventh of the American economy at their fingertips . . . for a while. Federal regulation of HMOs is a major move toward full-fledged public-private partnerships with HMOs (or as President Clinton prefers, "regional alliances"). Few lawyers have considered how difficult it will be to sue for health care claims, once most of the nation's health care services are provided by government-regulated (and protected) HMOs.

The Problem Is the Solution?

HMOs are bad. Patient protection is good. Members of a frightened public—fearing the effects of being caught in a bureaucratic maze—clamor for patient protection. Unfortunately, too many believe they will obtain this from the recent legislation. Ignorant of the fact that it was Congress that first propelled the nation's patients into HMOs, the public now places its trust in this same body.

In 1973, Congress passed the HMO Act, forcing employers to offer HMOs. It also gave HMOs millions of dollars in federal subsidies, which they used to undercut the premiums of traditional plans. The hope was that HMOs would eventually grow large enough to take over the market, and limit the cost of two government-run programs, Medicaid and Medicare. Over 25 years later, a few large HMOs have swallowed up much of the insurance industry, many smaller HMOs, thousands of hospitals and clinics, a great percentage of the employed public, Medicaid, and now a growing portion of Medicare.

Much of the population has now been trained to grudgingly accept rationed health care practices, which include delays, limited access to doctors, and outside controls. In December 1997, the actuarial firm Milliman and Robertson concluded: "As more individuals who currently are covered by managed care plans retire, there should be less public disagreement on further changing Medicare to resemble a managed care system."

True Protection

The sick and injured know that true patient protection means a non-managed care option and open access to their health care dollars. Patient protection does not come from the right to pursue stressful, time-consuming litigation and outside appeal processes. Legal maneuvering—contacting attorneys, accessing supporting documentation, and arguing about medical necessity—will simply be another way that HMOs can delay payment; it is not a guarantee of protection.

> *Advocates of a national health care system slyly scored another victory. All it took were two little words: patient protection.*

Unless the public is free to choose a non-managed care option, the words "patient protection" are only black ink scratches on white paper. Patients must be free from tax policies that encase them in prepaid, care-withholding, managed care corporations, and they must be free from government-endorsed rationing under "medical necessity" definitions.

Unfortunately, Congressional leaders cannot and will not fix this system. They are counting on a few chosen HMOs to limit their Medicaid and Medicare expenses. So before a jubilant public bestows accolades on its self-proclaimed protectors, citizens need to realize that these two words hide a ruse worse than today's piecemeal protections. In this next step to fully advance government-regulated managed care upon the public, the elimination of patient protection is all but guaranteed.

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New Era of Health Care Regulation. What are the effects of patient protection measures and other mandates at the state level? (American Legislative Exchange Council, December 1998, 9pp.)

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Law

Miranda Perry

Miranda Perry is an attorney at the Washington, DC-based Institute for Justice.

Urning an Honest Living

As a pastor, Reverend Nathaniel Craigmiles counsels his parishioners through difficult times, including the deaths of loved ones. But when the reverend sought to help his parishioners and other low-income Chattanooga residents by selling caskets for a fraction of what funeral homes charge, he met an unexpected foe: the state government.

The State of Tennessee threatened him with criminal prosecution. Why? Because he is not a licensed funeral director, and his business, Casket Supply, is not a licensed "funeral establishment," a status that would require an embalming room. Similarly, Tennessee has threatened Angela Brent and her father, Jerry Harwood, with fines and criminal prosecution. The daughter-and-father team are co-owners of The Casket Store, located near Knoxville.

Although criminal prosecution for selling caskets sounds unbelievable—after all, these business owners aren't handling or burying a body, but merely selling a box and delivering it to a funeral home—it is a reality for entrepreneurs across the country. Tennessee is one of a dozen states that require anyone who sells caskets and urns from a retail location to obtain either a funeral director's license or a funeral establishment license.

In mid-September, both Casket Supply and The Casket Store filed a legal challenge to Tennessee's anti-competitive funeral laws. The suit spotlights the arbitrary licensing restrictions that violate the would-be entrepreneurs' constitutionally protected right to earn an honest living.

Protection from Competition

Becoming a licensed funeral director in Tennessee requires two years of training in funeral directing and embalming, and passing a licensing exam, all at a cost of at least $8,000. While the law allegedly protects the public's health and safety, what it actually protects are existing funeral homes—from competition. By restricting entry to the casket business, the law enables existing funeral homes to inflate the price of caskets and urns to their customers. The law, enacted in 1971, was sponsored by a state senator with strong ties to the funeral home industry. Four current members of the legislature have or have had interests in funeral homes.

In Tennessee, the average funeral costs about $4,800, not including the cemetery plot and grave. The largest portion of funeral costs goes to the casket purchase, which often accounts for one-third to one-half the total cost. The government-created cartel only makes it that much easier for funeral directors to overcharge customers who, in the midst of grief, don't want to feel miserly toward the dead.

Neither Reverend Craigmiles nor Angela Brent knew just how outrageous these markups were until they visited out-of-state retail casket stores. During a visit to Manhattan, Craigmiles found the same casket he recently purchased from a Chattanooga funeral home—at a quarter of the price. His mother-in-law's casket cost $3,200 in Chattanooga, but only $800 in Manhattan. Similarly, Brent was inspired to open The Casket Store after seeing independent casket retailers while visiting her parents in Florida.

Craigmiles launched Craigmiles/Wilson Casket Supply with Tommy Wilson, one of his parishioners and a former funeral home worker. Brent and her father, Jerry Harwood, opened The Casket Store in Knoxville in early May. Both stores offered caskets of the same quality as area funeral homes but at substantial discounts. The Casket Store, for example, sold a popular stainless steel casket with a blue crepe interior known as "Going Home" for $1,499, compared to $3,495 at Knoxville funeral homes.

> *Tennessee is one of a dozen states that require anyone who sells caskets to obtain a funeral director's license. Not surprisingly, the law was sponsored by a state senator with strong ties to the funeral home industry.*

The state, however, acted quickly to "protect" consumers from these low prices. Just five days after The Casket Store opened, Tennessee's Funeral Board ordered Brent and Harwood to cease and desist selling caskets. In July, following publicity about casket retailers across the state, the Board ordered Craigmiles/Wilson Casket Supply to stop selling caskets as well.

Craigmiles has temporarily closed up shop and worries he'll have to close permanently if Tennessee's arbitrary licensing laws stay on the books. The Casket Store in Knoxville remains open, selling items such as urns, roadside crosses, grave markers, and pet burial items. But it cannot make ends meet without selling caskets.

It is time to open up long-standing government-created cartels that prevent industrious individuals from earning an honest living and that force consumers to pay more than a fair price—one determined by freely acting buyers and sellers—for products and services.

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Barriers to Entrepreneurship. Small businesses are key to job creation—and they are the most affected by red tape. (Institute for Policy Innovation, July 1999, 18pp.)

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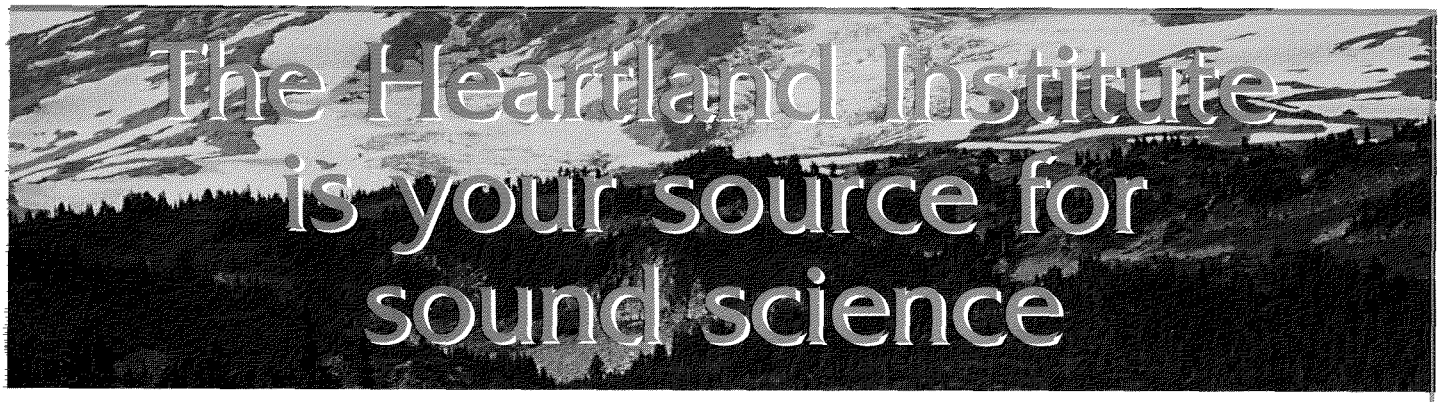

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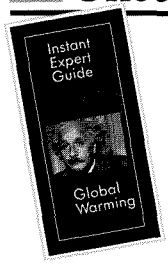

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Instant Expert Guide, October 1998
The Heartland Institute
#2329338 (12pp.)

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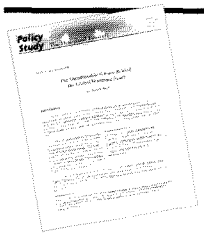

The Questionable Science Behind the Global Warming Scare

by Joseph Bast

The cost of the Kyoto Protocol might be worth bearing if we knew three things for sure: (1) that man-made greenhouse gases are truly causing global warming; (2) that global warming is or will be bad for the natural environment and for human civilization; and (3) that the emission reduction schedule that is contained in the Kyoto Protocol is the best or most effective way to stop the threatened global warming from occurring. All three necessary conditions for accepting the treaty, however, are either false, or we currently lack sufficient knowledge to know whether they are true.

Heartland Policy Study No. 89, October 1998
The Heartland Institute
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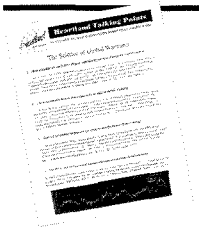

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Fact Sheet, October 1999
The Heartland Institute
#2329833 (6pp.)

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Privatization

Lisa Snell and Adrian Moore

Lisa Snell is a policy analyst, and Adrian Moore is director of privatization and government reform, at the Reason Public Policy Institute.

E-Government

Electronic government, or e-government, is one of the hottest trends in changing the way governments deliver services. Usually the term refers to making information available in a digital form, providing online transactions to citizens, and using electronic commerce tools in government procurement. According to *Government Technology*, public-private partnerships for electronic government are growing fast; in 1998 private-sector corporations outsourced $33 billion in IT technology, and state and local governments outsourced $2 billion.

For governments, electronic commerce means moving citizen services from "standing in line" to going online, cutting the costs of delivering services in the bargain. The Institute for Electronic Government reports that depending upon the service involved, the population required to use that service, and other variables, early studies suggest the cost of providing government services can be shaved by up to 70 percent by moving services online. And that figure does not include such costs as taking a day off work, driving, traffic congestion, and pollution.

The cost of providing government services can be shaved by up to 70 percent by moving services online.

The potential for cost savings can be illustrated by an example from the banking industry: it costs a bank $1 for a teller to process a transaction, but less than 1 cent via the Internet.

Although government will likely save money in the long run, the initial costs of electronic government can be high. In the early stages of an e-government initiative, development costs are high, online volume is relatively low, and staff assigned to handling in-person transactions cannot yet be reassigned.

Washington State Leads the Way

Although electronic government is in its early development stage (between one and 10 percent of government services are available online), a wide array of government services are already online. A few examples:

- The Indiana Department of Revenue uses bar codes to accelerate tax-return processing. It takes 4-1/2 hours to process 90 paper returns. By contrast, 90 bar-coded returns can be processed in 15 minutes—and with fewer errors. With manual data entry, the error rate is 14 percent. For the bar-coded returns, that rate is below 2 percent. As for cost savings, processing a paper return costs just over a dollar. The bar code reduces the cost by 69 cents.
- The Business Services Division at California State University, San Diego, went from having a 7,500 square-foot warehouse with a $500,000 to $750,000 inventory, to being a small office area linked to the online ordering systems of its supplier. The system has streamlined ordering and moved the business services division from a university division to a full-scale retailer. The department surrendered its university funding and implemented a charge-back model, which includes a small built-in profit to cover its costs. The cost savings from just-in-time ordering has helped the agency pay for its salaries, equipment, and a $1.5 million building.

When governments launch their Web strategies, they must do so from a citizen's perspective. One common technique is to offer a state government portal, rather than launching online services on a department-by-department basis. Washington State, for example, offers the public one-stop access to government via a system integrating the Web, kiosks, interactive television, and a telephone response system.

Public-Private Partnerships

In establishing e-government programs, public-private partnerships play a crucial role. IBM, for example, did all the development work for Arizona's vehicle-registration program, and now operates the program on its own servers, in exchange for $1 per transaction and 2 percent of revenues.

Kelly Kimball, CEO of government-software developer SDR Technologies, argued in a cover story for the September 13, 1999 *San Francisco Chronicle* that public-private partnerships are "the only real solution for e-government. The new model is that we develop the necessary software, run it on our own servers, and take care of all the maintenance and software hassles, all at no charge to the agency. Our compensation is entirely transaction-based."

By using private partners, state governments can build e-governance systems with greatly reduced costs, for start-up and ongoing operations. At the same time, more services can be delivered on a fee-for service basis, with the private partner being paid from the fee revenues. Thus, e-government can be a tool for moving certain government services from tax-based financing to user fees, where only those actually using the service pay for it.

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Enabling Legislation for Public-Private Infrastructure. Model legislation for contracting with private vendors. (American Legislative Exchange Council, 1997, 4pp.)

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Regulation

Murray Weidenbaum

Murray Weidenbaum is chairman of the Center for the Study of American Business.

Regulatory Reform and State Economic Development

Each state possesses a unique array of assets and liabilities in attracting economic development in an increasingly competitive and global marketplace. There are no boilerplate approaches that will work all the time. Nevertheless, regulatory reform can improve any state's economic prospects.

Most states have important and unique advantages. These powerful pluses include a strong entrepreneurial spirit generating an unparalleled flow of new enterprises, a "small cap" stock market available to new firms seeking capital, rapidly advancing technology to draw on, and a world-class higher education system to train the next generation of highly skilled workers and managers.

> *The most important actions a state can take to improve its competitiveness do not involve spending money or diverting potential revenues.*

But the liabilities that many states suffer in the competition for economic development should not be overlooked. These weaknesses range from burdensome regulation to arbitrary taxation to a large underclass of people who have dropped out of the modern economy. Some of these shortcomings can be dealt with only via a long-term strategy, which may include revamping elementary and secondary education and promoting the role of the family.

A Healthy Climate

However, let us focus on the shorter- and medium-term possibilities for improving the economy of any state. What can a state government itself do to give its state an edge?

In brief, it can and should help to create a positive and competitive business climate conducive to setting up new enterprises and expanding existing ones. That is the most basic way of encouraging job formation and raising income levels.

This recommendation, though, is not a plea for a new round of subsidies or a veiled request to favor any particular industry or type of business. That approach is neither fair to existing businesses nor effective as a long-run strategy.

In a misguided effort to give their states a leg up in the competition for new enterprise, some legislatures have authorized extremely generous packages of tax, expenditure, and credit inducements. Often, however, these giveaways backfire; after a few years, the company moves the factory or facility to another state with an even more generous set of subsidies. Meanwhile, local companies operate at a disadvantage.

Despite the dismal record of government subsidy programs, some companies and even whole industries request handouts, using heart-rending rhetoric as justification for special treatment. Those of us who have served as government officials in a variety of circumstances know how difficult it is to say "No." But that's a big part of the job.

A basic task of promoting economic development is to examine carefully the unique array of government obstacles that face any prospective new enterprise, or businesses considering relocating to a state.

Sadly, government programs—whether environmental protections, construction, or raising revenue—are often carried out in a bureaucratic fashion that undermines the public good. The disregard for the economic consequences of government action is epitomized by the boast of one housing official, describing how he tries to protect the environment: "I use the pinball approach. I just bounce each developer from office to office."

Undo Something

Most state agencies can do much more to reduce the uncertainties, delays, and paperwork burdens that unnecessarily complicate and discourage new business initiatives. It is difficult to underestimate the cost of dealing with government. New enterprises, particularly the high-tech and service businesses that comprise a major share of future growth prospects, need the flexibility to adapt quickly to the rapid changes that occur in the modern global economy. Too many government jurisdictions unwittingly place a bureaucratic straitjacket on business.

Often, it is not a matter of identifying any individual regulatory action that scares away potential new economic development. Indeed, the typical rule-making activity is justified by all sorts of claims of supposed social benefits that will be generated. But the cumulative effects of complying with a great host of regulatory requirements often pose a strong deterrent to locating a new or expanded enterprise in a given state or region.

By contrast, the most important actions a state can take to improve its competitiveness do not involve spending money or diverting potential revenues. Governments should not try to spoon-feed new or growing firms. The most successful ones make it on their own. To repeat the conclusion of my testimony to a legislative committee a while ago: "Don't just stand there, undo something."

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The Role of Government: Promoting Development or Getting Out of the Way? Government should do what it does well—but that is only a few things. (American Institute for Economic Research, August 1997, 4pp.)

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Crossing the Line for Cheaper Cigarettes

Bill Ahern

Bill Ahern is communications director for the Tax Foundation.

The cigarette tax has been a favorite revenue-raiser for years. Advocates of higher taxes claim that raising the prices of cigarettes through higher taxes will deter smoking. But such taxes are regressive . . . and they also cost state governments tax revenues, as smokers turn to tax-avoidance methods.

Almost all the methods smokers have used to avoid highly taxed cigarettes involve crossing borders of some sort—state borders, international borders, or the "borders" of low-tax military bases and Native American tribal reservations. Of course, not all cross-border activity is innocent bargain-shopping—some of it comes through highly organized smuggling operations.

The figure below illustrates trends in cross-border activity. State and local cigarette taxes in fiscal year 1962 averaged 26.4 cents per pack (in FY 1997 dollars), and 5.6 percent of all cigarettes were procured through some type of cross-border activity.

This moderate level of taxation and tax avoidance gave way after the 1964 Surgeon General's report on smoking. By 1972, average state and local taxes were 47.7 cents per pack (in FY 1997 dollars). Not surprisingly, cross-border activity climbed to 11.1 percent.

In 1977, the Advisory Commission on Intergovernmental Relations concluded that cigarette tax evasion was a serious problem for high-tax states, costing them $391 million ($944 million in 1998 dollars). In response, most states refrained from dramatically raising taxes. By the late 1970s, inflation had reduced the weighted-average cigarette excise tax to pre-1960 levels. Cross-border activity fell.

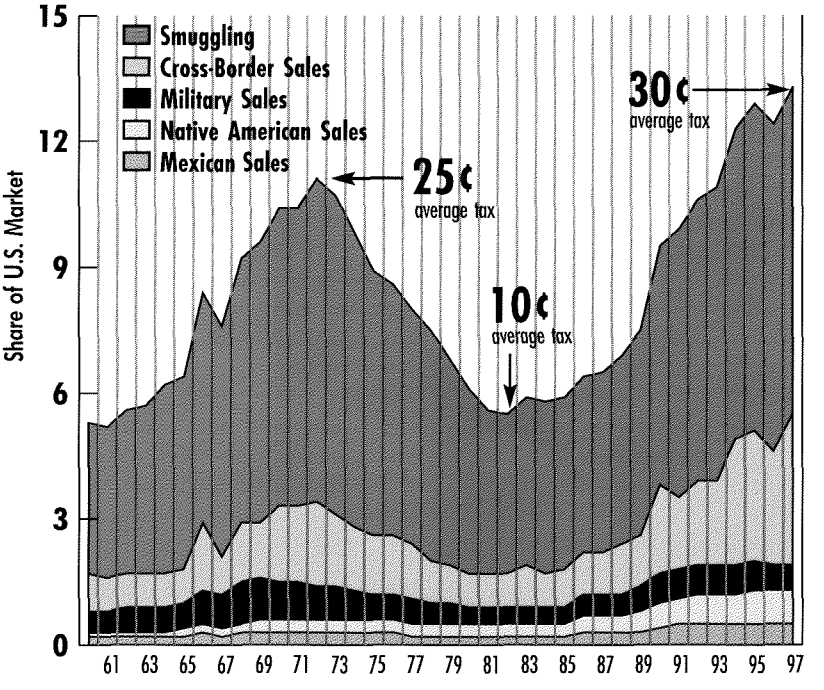
This lesson was eventually forgotten, as a new round of taxes began in 1983. Today, the District of Columbia and four high-tax states (Hawaii, New York, Washington, and Michigan) lose over 30 percent of taxable sales to cross-border activity of all types.

> *Cigarettes are the ideal product for casual cross-border purchases and large-scale interstate smuggling.*

Cigarettes are compact, lightweight, and easily transported—the ideal product for casual cross-border purchases and large-scale interstate smuggling.

Judging from the experiences of the past 39 years, jurisdictions with high cigarette taxes can depend on losing a substantial fraction of their taxable sales, especially if neighboring jurisdictions have significantly lower taxes. Jurisdictions with excise taxes high enough to attract smugglers must face the certainty of turning cigarette retailing into a law enforcement challenge, with all the human and financial costs that entails.

Share of U.S. Cigarette Market by Type of Cross-Border Activity FY 1960-1997



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Interstate Cigarette Smuggling. This report from the U.S. General Accounting Office provides the latest numbers on cross-border cigarette sales. (GAO, May 1998, 9pp.)

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Welfare

Robert Rector & David Muhlhausen

Robert Rector is a policy analyst and David Muhlhausen is a research assistant at The Heritage Foundation.

Is There a Hunger Crisis in America?

It is frequently alleged that hunger and malnutrition are widespread in the United States.

But while hunger does exist in the United States, it is relatively restricted in scope and frequency.

For example, survey data from the U.S. Department of Health and Human Services show 96 percent of U.S. households report they had "enough food to eat." Some 3 percent report they "sometimes" do not have enough food, and around a half percent said they "often" do not have enough food. Among poor Americans, 84 percent report having enough food, while 13.2 percent report shortages "sometimes" and 2.7 percent "often."

It is widely believed that lack of financial resources forces poor people to eat low-quality diets that are deficient in nutriments and high in fat. Survey data, however, show that nutriment density (the amount of vitamins, minerals, and protein per kilocalorie of food) does not vary by income. Those with low incomes do *not* have higher-fat diets.

In general, poor children are particularly well nourished. The average consumption of protein, vitamins, and minerals is virtually identical for low- and middle-income children and in most cases is well above recommended norms. Poor children actually consume more meat than do higher-income kids and have protein intakes 100 percent above recommended levels.

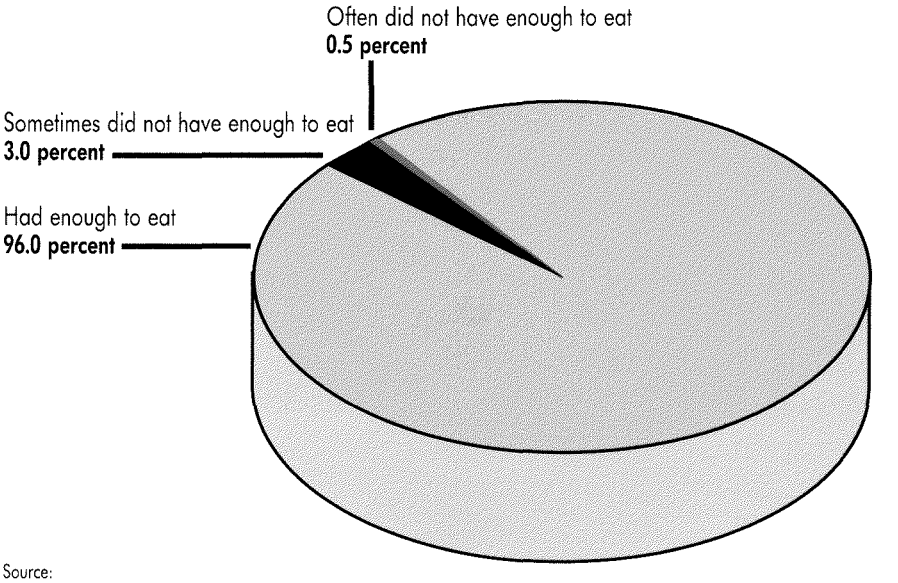
International comparisons demonstrate how well-nourished poor American children are. The World Health Organization (WHO) provides global standards for measuring the growth and stature of children. The most prominent indicator of under-nutrition is "stunting," or very low height for age. Among poor American children, 2.7 percent fall below this low-height threshold; this represents the normal level given ordinary genetic variation in height and growth under optimal conditions. By contrast, among all children in the general population in Africa, WHO finds 39 percent are stunted. In Asia the rate is 47 percent; in Latin America, 22 percent.

By historic standards, poor American children are giants as well. Today, low-income boys at age 18 are one inch taller and some 10 pounds heavier than the GIs of World War II.

> *Among poor Americans, 84 percent report having enough food, while 13.2 percent report shortages "sometimes" and 2.7 percent "often."*

The poor, however, do suffer from one major nutrition-related health problem: obesity. Within a generally overweight American population, the poor are actually the heaviest. Nearly half of poor adult women are overweight. Doctors who concluded a recent medical study of low-income black and Hispanic students in central Harlem concluded that the nutritional problem seems "to have shifted from under-nutrition to over-nutrition."

Percentage of U.S. households that report they . . .



Source:
U.S. Department of Health and Human Services, Third National Nutrition Examination Survey.
Note: Numbers do not equal 100 percent due to rounding.

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It's Been a Very Good Century, But . . .
Human welfare has improved dramatically in recent years. (American Council on Science and Health, September 1999, 6pp.)

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"Living Wage" Law Is Public Policy at its Worst

by Lawrence W. Reed

On November 3, 1998, Detroit voters overwhelmingly approved a so-called "living wage" ordinance. Effective January 1, 1999, it requires employers with at least $50,000 in city contracts or financial assistance to offer workers a minimum hourly wage of $8.23 if health benefits are included, or $10.28 if they are not. Furthermore, the law requires that employers hire only city residents. Violators are subject to a $50-per-day penalty and may have their city contract or grant revoked as well.

The city's already-bloated bureaucracy will get larger now because contracts will have to be monitored for compliance, which also means that businesses will be forced to reveal confidential payroll information. This is public policy at its worst.

Of course, there's nothing in the ordinance that will make workers more productive. It only makes them less affordable. A city that has already driven out a million people and countless businesses with a tax burden more than six times the average for Michigan municipalities will now become even less competitive and economically attractive. A prominent Detroit economist estimates the ordinance will wipe out about 7 percent of the city's jobs.

Of course, there's nothing in the "living wage" ordinance that will make workers more productive. It only makes them less affordable.

Hurting Those Who Help the Needy

It isn't just businesses that are affected. Nonprofit charities are, too. For example, two Salvation Army sites in Detroit receive $300,000 from the city; most conservative estimates put the new law's yearly cost to the Army at $1.5 million. The Army will either have to raise an additional $1.5 million, lay off workers, or cut back services. The neediest of people whom the Army serves will likely get hurt.

What we have here is a powerful argument against any charity getting entangled with politicians at all. "Government shackles follow government shekels," as the saying goes.

Every economic argument against the minimum wage applies in spades to living wage proposals like Detroit's. The law cannot make a person worth $5.15 an hour (the current federal minimum) by making it illegal to pay him any less. By mandating an even higher minimum, the living wage prices even more people out of work. The people who push these cockamamie ideas never seem to ask why any employer would hire someone at $8.23 if that person's services are only valued in the marketplace at, say, $5.00.

Moreover, by imposing more-costly-than-necessary employment arrangements, this new law will require more city revenue or reduced city services. The long and short of it is this: Though some workers may keep their jobs and even see their wages hiked, others will pay the price in the form of fewer jobs or higher taxes.

The Michigan Society of Association Executives, which opposes these ordinances, reports that other cities in Michigan are considering living wage proposals. They include Kalamazoo, Grand Rapids, Ypsilanti, Ann Arbor, Jackson, and Lansing.

Who is behind these silly laws? In Detroit, the ballot language was drafted and the campaign funded by none other than organized labor. Why? Because a city floor under wages will stifle the unions' low-cost competition and make it more difficult for the city to contract out for services. This is not organized labor playing the role of Florence Nightingale. It is the cannibalization of fellow workers by greedy, self-interested union bosses.

Nationally, the living wage effort is being led by a group known as the Association of Community Organizations for Reform Now (ACORN). This organization actually filed a lawsuit in California in an attempt to exempt itself from paying its own employees the state's then-current $4.25 per hour minimum wage. In its legal brief, the organization declared that "[T]he more that ACORN must pay each individual outreach worker . . . the fewer outreach workers it will be able to hire." Hypocrisy has rarely been on more arrogant display.

Mayor Dennis Archer, who first supported and then at the eleventh hour raised some objections to the proposal last November, owes the city some wisdom and leadership on this issue. He should work for the repeal of the irresponsible living wage ordinance and in the meantime, endorse legal challenges to it. Otherwise, the legislature should cut back on the subsidies it sends to Detroit at the expense of the rest of the state's workers and taxpayers.

❖

Lawrence W. Reed is president of the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Michigan. The center may be reached at PO Box 568, Midland, MI 48640; phone 517/631-0900; fax 517/631-0964; email mcpp@mackinac.org; Web www.mackinac.org.
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Effects of Impact Fees on the Suburban Chicago Housing Market

by Brett M. Baden, Don L. Coursey, and Jeannine M. Kannegiesser

On November 19, 1999, The Heartland Institute released Heartland Policy Study No. 93, "Effects of Impact Fees on the Suburban Chicago Housing Market," by Brett M. Baden, Don L. Coursey, and Jeannine M. Kannegiesser. The 60-page report is available from The Heartland Institute for $10. It is also available on the World Wide Web at www.heartland.org.

Municipalities in suburban Chicago impose fees ranging from $2,223 to $8,942 on new four-bedroom homes. Other "unofficial" fees and the cost of complying with regulations add significantly to these totals. Impact fees are passed through to new home buyers in the form of higher prices or reduced choice of size, location, and amenities. Due to the incentives facing policymakers and the lack of accurate information on the true cost of new development, impact fees are unlikely to reflect the true cost of public services or infrastructure. High impact fees are regressive, reduce the supply of moderately priced housing and may negatively affect a community's ability to attract and retain good-paying jobs.

Impact fees are not a "free lunch" for municipalities. They raise the prices of new homes and encourage construction of more expensive housing in less-optimal places.

1. Impact fees in suburban Chicago range from $2,223 to $8,942 for a typical four-bedroom house.

Impact fees are charges collected by counties and municipalities from developers to recover the cost of infrastructure improvements attributable to new development. Impact fees are an increasingly common tool that municipalities around the country use to pay for new schools, sewers, roads, parks, and other public amenities.

For the present study, the authors calculated the fees on a four-bedroom, single-family home on a 1/4-acre lot for eight suburban Chicago communities between 1995 and 1997. The totals range from $2,223 in Aurora to $8,942 in Burr Ridge.

2. Municipalities impose other costs on developers that add significantly to the price of new homes.

As large as they sometimes are, official impact fee schedules dramatically understate the true costs imposed on developers by municipalities. Other costs include annexation fees, permit and application fees, connection fees, time spent in public hearings, interest paid on loans or capital investments pending approval of applications, and the cost of complying with other kinds of regulations. Many expenses are unique to each project and cannot be averaged.

One case study of a 33-home development in Naperville, Illinois reveals actual charges incurred by the developer totaling $343,917, or $10,421 per house, more than twice the "official" amount of impact fees. That same developer estimates he spent $228,329 more to hire civil engineers, do environmental and archeological studies, and pay legal fees and interest due to process delays and land planning design costs. Regulatory delays of three and four years are documented by the case studies.

3. Impact fees do not reflect the true cost of infrastructure and services caused by construction of new homes.

Impact fees are commonly defended on economic efficiency grounds as a way to compel new homebuyers to pay the marginal costs of their impact on local infrastructure. But impact fees are not set at levels to collect the "right" amount of revenue for three reasons:

- The true "cost of development" is difficult to calculate due to the enormous complexity and uncertainty of future residents' use of schools, roads, parks, and other public facilities. Exhaustive studies of the matter have come to very different conclusions.
- The ambiguity of the test creates a rent-seeking opportunity for municipal governments: government officials may, in other words, charge developers more than the real cost of development simply to increase the municipality's treasury.
- Current homeowners have a financial incentive to support municipal policies that set impact fees too high. Sellers of existing homes enjoy a windfall profit when high impact fees are imposed on new homes, since their homes are close substitutes for new homes. Homeowners who do not sell their homes enjoy improved creditworthiness due to the increased value of their homes.

Of the communities examined for this study, only one devotes significant attention to estimating the future income stream represented by property taxes from new homes. Much more common is the case of Naperville, where an almost random application of fees and fines

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appears designed to maximize municipal revenue rather than recover investments in infrastructure.

4. There is no such thing as a free lunch: *Somebody* has to pay impact fees.

When municipalities adopt impact fees, all other things being equal, developers will be willing to sell less housing at any given price, since they now must recover their cost of producing the housing as well as the cost of the fee. This means higher prices for housing in the community charging the fees, or changes in the type and location of new housing. Empirical analysis performed for this study found that impact fees significantly raised the prices of new homes. The increase for an average new four-bedroom home ranged from $2,148 in Bolingbrook to $10,943 in Burr Ridge. (See table.)

Where developers are unable to pass along fees to homebuyers directly, they may choose instead to build in areas with lower fees, even though such areas are less suited to commuting patterns and community planning. Or they may build larger and more expensive homes to recover the fees through higher margins. These activities impose indirect, but still significant, costs on taxpayers, commuters, and homeowners.

5. High impact fees are regressive and lead to less moderately priced housing.

People with modest incomes are hurt by impact fees in two ways. A community's impact fees are typically the same whether a new home is priced at $150,000 or $500,000. The fee therefore requires a larger percentage increase in the sale price of lower-priced homes than of higher-priced homes. Second, builders are most likely to respond to high impact fees by reducing the supply of moderately priced housing, since fees are usually added to the cost of the lots they build on, and the size and amenities of new homes are often chosen to justify a sales price of between three and four times the cost of the lot.

Because impact fees significantly increase new housing prices in suburban Chicago, they prevent some potential homebuyers from purchasing homes. Those who can still afford to buy a home are forced to buy less housing than they otherwise could have. To the extent that income is correlated with race, impact fees may slow or prevent the migration of minorities into the suburbs.

High housing costs in the Chicago area are a legitimate concern to housing advocates and cost-conscious businesspeople. According to a recent survey, the same 2,000-square-foot home with 3-4 bedrooms costs $175,000 in the Chicago metropolitan area, $110,000 in Jacksonville, Florida, and $160,000 in Seattle, Washington.

6. High impact fees cause other negative effects.

Impact fees raise serious questions of fairness. They force newcomers to pay more, sometimes much more, for the same services and amenities enjoyed by current residents. Younger families are deprived of the lifestyle enjoyed by older people, even though the former are willing to pay the full cost of their impact on the community.

As high impact fees on new development push up the prices of existing homes, some long-time residents may encounter difficulties paying the higher taxes that accompany higher assessed valuations. They may be wealthier in terms of their assets, but they may not wish to sell their homes and leave the neighborhoods in which their friends and relatives continue to reside.

High impact fees may reduce job creation and personal income growth. Employers risk losing high-quality workers to areas with more moderately priced housing or, if they raise salaries to compensate for the high prices, risk losing sales to lower-priced products offered by competitors. Some employers will simply relocate to a community with lower housing costs

Price Increases Due to Impact Fees

for average new four-bedroom detached single-family homes

Community	Price Increase *Low estimate*	Price Increase *High estimate*
Aurora	$2,752	$3,611
Bolingbrook	$2,148	$2,818
Burr Ridge*	$8,340	$10,943
Darien	$4,658	$6,112
Downers Grove	$3,863	$5,069
Glen Ellyn	$4,370	$5,734
Naperville	$3,277	$4,235
Wheaton	$3,579	$4,697

*The small number of four-bedroom homes in this community may render these estimates unreliable.

7. Municipal officials should carefully weigh the unintended economic and social consequences caused by impact fees.

Impact fees are not a "free lunch" for municipalities. They raise the prices of new homes and encourage construction of more expensive housing in less-optimal places. Case studies indicate that fees, exactions, construction delays, and regulatory compliance costs impose sizeable additional costs on developers. All of these costs are eventually passed along to consumers either directly, through higher home prices, or indirectly, through imposed social costs.

Setting impact fees at the appropriate levels requires considerable research into the accounting and budgetary structure of a municipality. Institutional incentives lead municipalities to set fees higher than would be justified by such research. Frequent changes to fee structures and ad hoc assessments and exactions imposed on a project-by-project basis increase building costs without generating any offsetting revenues or benefits for municipalities.

For all these reasons, municipal officials should pay careful attention to the unintended economic and social consequences created by their use of impact fees.

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Keeping the Internet Free Can Help, Not Harm, Community

by John R. La Plante

Elected officials at all levels of government are being called upon to tax, regulate, or subsidize access to the Internet. Often these calls are couched in terms of protecting our sense of community from perceived threats. But how real are these threats, and would placing new restrictions on the digital economy really help preserve community?

Perceived Threats

Much is made of the fact that the Internet offers easier access to pornography. True enough—but it should be remembered that in doing so, the Internet could put the local porn shop out of business. By allowing out-of-state corporations to sell their products tax-free directly to consumers, it threatens to make local businesses obsolete. These are real concerns that deserve public debate and in some cases policy reforms.

When commentators say the Internet threatens community, they often define community as a group of people bound together by geographic proximity; specifically, neighborhoods. But that kind of community has co-existed with another kind of community—a group of people in various geographic locations, brought together by a shared interest—for centuries. Both kinds of community have lived with the printing press, the radio, the telephone, and the television, and both will survive the Internet.

True enough, online communications are limited to typed words and symbols, so they lack the subtle nuances that come from face-to-face contact, such as facial expression and tone of voice. Even the most sophisticated video-conferencing technology is unlikely to replace the empathy expressed by a pat on the shoulder, and no number of email messages—or their predecessors, phone calls or hand-written letters—are going to substitute for the companionship that is built by, say, helping someone move to a new house.

An online community does have its attractions and even advantages. The online life is a valuable addition to "real life."

Advantages of the Online World

Still, an online community does have its attractions and even advantages. It can meet at any time, and it requires no geographic space. It is a great place for exchanging ideas, either briefly and spontaneously (during chats) or deliberately (in carefully written letters). The Internet allows for smaller, more specialized groups to form. Each of the 100 people in the country—or world, even—interested in the writings of an obscure mystic of the middle ages, for example, can find, through an electronic mailing list, that they are not alone. How can this be bad?

Furthermore, the online community is not bereft of shared experiences. In my life online, I have seen (and been part of) mailing lists in which people exchange ideas on child-rearing, or celebrate news of a new job, or boast of the accomplishments of a recent fishing trip.

I've been a cybercitizen for over 10 years, long enough to offer some ideas on what has worked to build an online community—and long enough to conclude that the online life is a valuable addition to "real life."

In a healthy community, there is a shared interest. From the common topic, discussions can be narrowly focused, or diverge somewhat. The best communities are focused, but not rigidly so. For five years I participated in a discussion group about music. As expected, we spent a lot of time "talking" about music. But our discussions often turned to philosophy of art, which led to further tangential discussions about life experiences and meaning-of-life stuff. Eventually, many of us had face-to-face meetings, completing some of the elements of a traditional community that we lacked.

In a healthy community, participants welcome newcomers. Today, I am part of a collection of individuals who share information about mutual fund investing. Many of us have a lot of experience, but our focus is to help those new to the world of investing. The old-timers answer questions (which are usually variations on a few themes) from the "newbies," even as we chat about advanced topics.

In a good community, a heretic keeps everyone sharp. All groups of people are prone to "group think, " during which conventional wisdom goes unquestioned and one way of thinking predominates. A heretic can provoke people to rethink settled questions. He may not change any opinions, but everyone will be better off for the challenge.

In a healthy community, participants treat each other with respect. It's difficult to develop this online, but experience, combined with patience, goes a long way.

What Elected Officials Should Do

The Internet, in short, plays a very positive role in creating and sustaining communities where geographical proximity is not possible. Attempting to stomp out pornography or gambling on the Internet creates a real risk of cutting off from positive social interaction many people for whom the Internet plays a very important and positive role. Over time, if left free to evolve and grow, the benefits of these "virtual" communities may far surpass whatever risks they seem to pose today to vulnerable groups among us.

When confronted with demands to regulate the Internet, elected officials would do well to point out the positive community-building aspects of the Internet and ask how interventions would affect those features. It is a difficult trade-off that government officials are probably ill-suited to make. Better, I think, to relax, maintain the rule of law, and let private virtue guide people as they go about the innate human practice of building communities.

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John R. La Plante is managing editor of Intellectual Ammunition.

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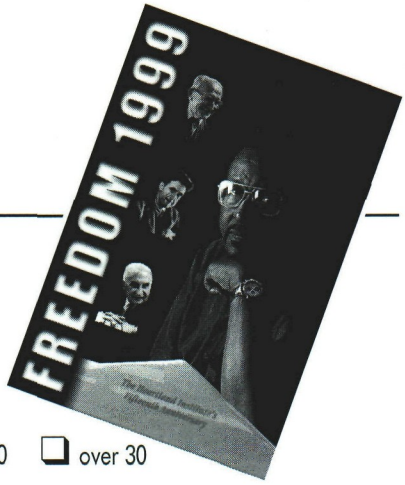

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